ECO 720 - Macroeconomics - Spring 2020

Thursdays 6pm - 8pm, New Building 9.63.24

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Office hours: Tuesdays and Thursdays 12:30-2:30, and by appointment

Course description: Macroeconomics is the study of the economy as a whole, as distinct from the behavior of individual households, businesses and markets. Macroeconomics consists of a system of accounting for aggregates describing the economy as a whole, and a body of theory for explaining the behavior of those aggregates. Macroeconomic theory is concerned with questions such as: Why do output and employment vary from year to year? Why does economic growth so often involve booms, crises and depressions rather than a steady rise in living standards? Why do people with the capacity and willingness to work remain unemployed? What is the relationship of money and finance with the “real” activity of production and consumption? Why is the distribution of income so unequal, and how has it changed over time? Why are prices subject to periods of inflation and deflation? Why are manias, panics, bubbles and crashes so common in financial markets? Why are some countries rich, while others are poor? Why do some countries consistently sell more than they buy from the rest of the world, while other countries buy more than they sell and must borrow abroad? What were the causes of the financial crisis of 2008, and the deep recession and slow recovery that followed? By its nature, macroeconomics is policy-oriented: Its origins and much of its development have been as a tool to assist public officials in shaping macroeconomic outcomes.

This is a course in macroeconomic theory, organized around its historical development. We will explore a variety of economic models – abstract representations of the economy used both by academic economists and (often implicitly) by government officials, journalists and advocates to organize their thinking about the economy. The goal is to give students the tools, vocabulary and concepts to participate in discussions of macroeconomic policy. Readings include a mix of textbook chapters, classic articles, and contemporary scholarship. The first half of the course will trace the evolution of macroeconomic thought over the 20th century. The second half will be devoted to today’s macroeconomic orthodoxy and to various “heterodox” challenges to it by Marxist and Post Keynesian economists. The focus will be on developed countries, primarily the United States.

Most classes will focus on one or more formal models, expressed in equations and/or diagrams, reflecting a particular problem or school of thought. Student work will consist primarily of using these models to answer substantive questions about the economy. By studying a variety of models used to explore the same fundamental outcomes, we will clarify the key faultlines in economic debates and the logical relationships between various claims about the economy.

Learning outcomes: The primary goal of this course is to help students become active participants in policy debates. Students who successfully complete this course will learn:
to use concepts and vocabulary describing the economy as a whole; to think logically and systematically about the relationships between parts of a complex system; to “translate” between verbal statements and mathematical representations; to use formal reasoning to address questions about economic outcomes and policy; key developments in macroeconomic thought over the past century; and the main divisions and sources of controversy in macroeconomic policy. They will also get an introduction to various schools of macroeconomic thought, allowing them to continue studying alternative traditions in economics in future classes or on their own. Throughout the semester, we will work to link macroeconomic concepts and theories to current policy debates. Students will practice discussing complex macroeconomic ideas and spelling out the logic of economic arguments, as preparation for policy discussions in government, advocacy, media or business settings. The primary goal by the end of the class is for students is to be able to present a coherent argument on a macroeconomic topic, and explain the different views taken by economists on the topic.

Grading:

Grades will be calculated as follows:

Assignments: 60%
Final exam: 40%

Grades will be assigned on a curve such that any student who completes all the coursework and demonstrates a good-faith effort to master the material will receive a grade of B or above.

Attendance. Students are expected to attend class regularly, and to be active participants in class discussions. A few absences over the course of the semester will not reduce your grade, but it is your responsibility to inform yourself about the material covered on any days that you miss.

Assignments. There will be approximately 10 homework assignments over the course of the semester. These assignments will involve a mix of problem-solving using formal models and written analyses of the readings. All assignments may be submitted on paper or by email to profjwmason@gmail.com. In either case they must be received by the start of the class when they are due.

Exams. There will be one in-class final exam.

No extra credit is available.

Academic honesty. Discussion and collaboration between students outside of class is encouraged, but all work submitted must be in your own. In addition, students should be aware of John Jay’s policy on academic honesty, available online at [http://www.jjay.cuny.edu/web_images/Policyand_Procedures.pdf](http://www.jjay.cuny.edu/web_images/Policyand_Procedures.pdf). The use of any unattributed text from an online source, even a single sentence, is considered plagiarism, and will result in a zero for the assignment.

Readings. All required and optional readings will be posted on the course Blackboard site. Required readings are listed on this syllabus, but are subject to change over the semester. Supplemental reading lists will be distributed periodically over the course of the semester.
Students are expected to do all the required readings prior to the class for which they are assigned. Assignments and the final exam are based on the assumption that students have done the assigned reading. Lecture notes will also be distributed after every class, covering both the topics discussed in the class and background material for upcoming topics.

Students should bring the day’s readings to class, either in paper form or easily accessible on a laptop or tablet.

**Office hours.** One on one meetings with the instructor are a core part of the course. All students are expected to meet with the instructor at least once during the semester. Students are encouraged to come in more often, either to address specific challenges with the material or assignments, or simply to discuss topics covered in the course. Regular office hours are Tuesdays and Thursdays 12:30-2:30pm, but meetings outside those times can be arranged for students who cannot come then.

**Email.** Changes to readings, course meeting times, and other important course updates will be announced by email. Articles and news stories relevant to the class will be distributed as well. It is therefore essential that students provide a working email address that they check regularly. Emails from students will be replied to within 24 hours.

**Course outline and required readings.** Required readings will total approximately 100 pages per week. Students are expected to have done all reading prior to the class it is assigned for. All readings will be available on the course Blackboard site. The main textbook for the class is Snowdon and Vane, *Modern Macroeconomics: Its Origins, Development and Current State*. Students are expected to purchase the Snowdon and Vane book as well as Keynes’ *General Theory of Employment, Interest and Money*.

The first half of the semester will cover the historical development of macroeconomics over the 20th century, beginning with pre-Keynesian classical macro, through the Keynesian revolution, the postwar consensus, the attacks on Keynesian economics in the 1960s and 1970s, and the establishment of the new consensus in the 1990s. The next quarter will focus on today’s consensus macroeconomics. The final quarter of the class will discuss various alternative or heterodox challenges to consensus macroeconomics.

All the listed readings are required. The schedule and readings may change over the semester; any changes will be announced in class and by email. Additional lists of supplemental readings will be distributed over the course of the semester. These additional readings are strictly optional.
Jan. 30  Overview and Pre-Keynesian Macro
Mason, “Macroeconomic Lessons of the Past Decade”
Snowdon and Vane, ch. 1, 2.1 - 2.5

Feb. 6  Keynes I: Aggregate Demand
Snowdon and Vane, ch. 2.6 - 2.14
Keynes, *General Theory*, ch. 8-11, 18

Feb. 13  Keynes II: Liquidity and Interest
Keynes, *General Theory*, ch. 12-17, 24
Keynes, “The General Theory of Employment”
Keynes, “The Ex Ante Theory of the Rate of Interest”
Keynes, “Alternative Theories of the Rate of Interest”

Feb. 20  Keynes III: The Keynesian Vision
Crotty, *Keynes Against Capitalism*, selections

Feb. 27  The Postwar Consensus: Closed Economy
Snowdon and Vane, ch. 3
Hicks, “Mr. Keynes and the Classics”
Tobin, “Price Flexibility and Output Stability: An Old Keynesian View”

March 5  The Postwar Consensus: Open Economy
Davidson, *John Maynard Keynes*, ch. 9
Caves and Frankel, *World Trade and Payments*, ch. 23-24
Dornbusch, *Open Economy Macroeconomics*, ch. 3

March 12  Conservative Challenges I: Monetarism
Snowdon and Vane, 4.1-4.3
Friedman, “The Role of Monetary Policy”
De Long, “The Triumph of Monetarism?”
Bibow, “What Happened to Monetarism?”
March 19  Conservative Challenges II: Rational Expectations
Snowdon and Vane 5.1-5.4, 5.5.5-5.5.6
Snowdon and Vane 6.3-6.9, 6.11, 6.13, 6.18

March 26  The New Keynesian Consensus I: The Three-Equation Model
Snowdon and Vane, ch. 8
Carlin and Soskice, *Macroeconomics*, ch. 1, 2, 3.1, 3.4

April 2  The New Keynesian Consensus II: Policy
Carlin and Soskice, *Macroeconomics*, ch. 13-15

April 23  Growth
Snowdon and Vane, ch. 11
Foley and Michl, *Distribution and Growth*, ch. 1, 10, 11

April 30  Heterodox Approaches: Distribution and Demand
Bhaduri and Marglin, “Unemployment and the Real Wage: the Economic Basis for Contesting Political Ideologies”
Bowles and Boyer, “Labor Discipline and Aggregate Demand: A Macroeconomic Model”
Bowles, “Three’s a Crowd: My Dinner with Karl, Leonard and Maynard”

May 7  Heterodox Approaches: Cycles and Instability
Keynes, *General Theory*, ch. 22
Skott, “Post Keynesian Theories of Business Cycles”
Fazzari et al., “Aggregate Demand, Instability, and Growth”
Bakir and Campbell, “Business Cycles: Short-Term Dynamics”

May 14  Heterodox Approaches: Finance
Mehrling, “The Vision of Hyman P. Minsky”
Minsky, “The Non-Neutrality of Money”
Minsky, *John Maynard Keynes*, ch. 1-3
Minsky, *Stabilizing an Unstable Economy*, ch. 8-9
Minsky, “The financial instability hypothesis: a restatement”